

**Child,  
Van Wagoner &  
Bradshaw, PLLC**

**Cedar City Housing Authority**

**Independent Auditors' Reports, Management's  
Discussion and Analysis, and Supplemental  
Information**

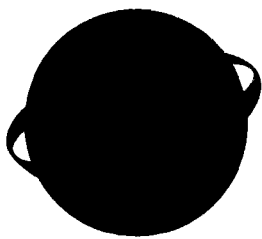
**For the years Ended June 30, 2005 and 2004**

**With Independent Auditors' Report Thereon**

# **Cedar City Housing Authority**

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# Child, Van Wagoner & Bradshaw, PLLC

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## Independent Auditors' Report on Financial Statements and Supplementary Schedules

To the Board of Commissioners  
Cedar City Housing Authority  
Cedar City, Utah

We have audited the accompanying financial statements of the business-type activities and each major fund of the Cedar City Housing Authority (the Authority), as of and for the years ended June 30, 2005 and 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of June 30, 2005 and 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Board of Commissioners  
Cedar City Housing Authority

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2006, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit for the year ended June 30, 2005.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Financial Data Schedules I and II and related notes on pages 25 through 30 are presented for purposes of additional analysis, as required by the U.S. Department of Housing and Urban Development. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* for the year ended June 30, 2005. These Schedules are not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Child, Van Wagoner & Bradshaw*

Child, Van Wagoner & Bradshaw, PLLC  
Kaysville, Utah  
March 10, 2006

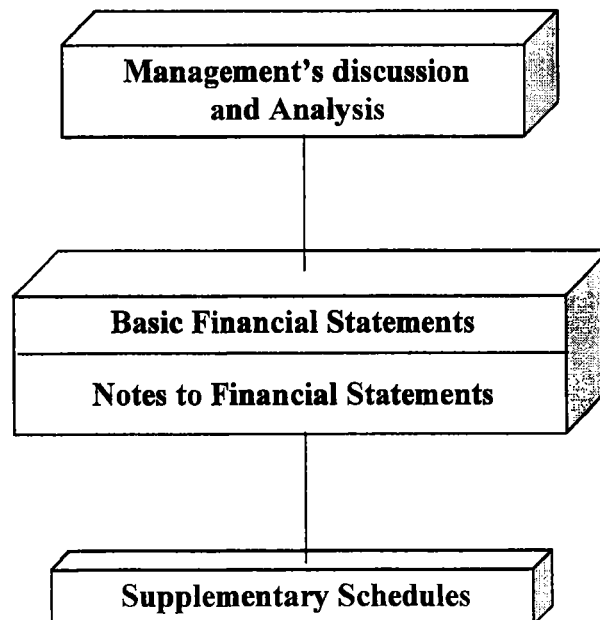
**Cedar City Housing Authority  
Management's Discussion and Analysis (MD&A)  
Year Ended June 30, 2005**

**INTRODUCTION**

The Cedar City Housing Authority (the Authority) was created under the laws of the state of Utah, and certified by the United States Department of Housing and Urban Development (HUD). The purpose of the Authority is to administer programs in the City of Cedar City, Utah area under the Housing Act of 1937, as amended. The Federal Government subsidizes these programs by direct awards through HUD and U.S.D.A.-Rural Development (RD), and pass through awards through other state and local government agencies. The Authority is governed by a five-member board of commissioners, which is appointed by the Mayor of the City of Cedar City. The Board, in turn, elects a Chairperson and employs an Executive Director to administer the affairs of the Authority.

The Authority presents this discussion and analysis of its financial performance during the fiscal year (FY) ended June 30, 2005, to assist the reader in focusing on significant financial issues and concerns. This discussion and analysis is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June 1999.

The Authority's FY2005 annual financial report consists of two parts – the management's discussion and analysis, and the basic financial statements (which include notes to those financial statements). Also included are supplementary schedules that show information that was sent to HUD/REAC related to our basic financial statements.



**Cedar City Housing Authority**  
**Management's Discussion and Analysis (MD&A) (continued)**  
**Year Ended June 30, 2005**

The basic financial statements provide information about the Authority's overall financial position and results of operations. These statements, which are presented on the accrual basis, consist of the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. The basic financial statements also include a "Notes to Financial Statements" section that provides additional information that is essential to a full understanding of the data provided in the basic financial statements.

The primary focus of the Authority's financial statements is on a single business-type activity that combines all programs administered by the Authority. This discussion and analysis is focused on the primary activities of the Authority.

### **FINANCIAL HIGHLIGHTS**

Under GASB Statement No. 34, the Authority's single business-type activity financial statements for FY2005 report on all of the Authority's assets, liabilities, revenues, expenses, and net assets under the programs it administers. A summary of the current-year results in comparison with the prior year results follows:

- Net assets of the Authority increased \$54,690 as of June 30, 2005, from the prior year.
- Operating revenues of the Authority increased by \$62,204, or 7%, over prior year results.
- Principal payments on mortgage notes outstanding were \$20,102 during the year.
- The increase in cash and cash equivalents for the year was \$53,880.
- The Authority received grants (other than HUD) of \$172,420 during the FY2005.

### **AUTHORITY FINANCIAL STATEMENTS**

The Authority is presenting its FY2005 discussion and analysis based on the financial results of its enterprise programs in three basic financial statements – the balance sheet; the statement of revenues, expenses and changes in net assets; and the statement of cash flows. The balance sheet reports all financial and capital assets of the Authority and is presented in a format where assets equal liabilities plus net assets. Net assets are broken down into the following three categories:

**Cedar City Housing Authority**  
**Management's Discussion and Analysis (continued)**  
**Year Ended June 30, 2005**

- *Net assets, invested in capital assets, net of related debt* consists of all capital assets net of accumulated depreciation, reduced by the outstanding balances of mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.
- *Restricted net assets* consists of assets that are restricted by constraints placed on the asset by external parties, such as creditors, grantors, contributors, laws, or regulations reduced by liabilities payable from such assets.
- *Unrestricted net assets* consists of net assets that do not meet the definition of *net assets invested in capital assets, net of related debt* or *restricted net assets*.

The statement of revenues, expenses and changes in net assets (similar to an income statement) includes operating revenues, such as rental income; operating expenses, such as administrative, utilities, maintenance, and depreciation; and nonoperating revenues and expenses, such as investment income and interest expense. The statement's focus is the change in net assets, which is similar to net income or loss.

Finally, a statement of cash flows is included, which discloses net cash provided by or used for operating activities, capital and related financing activities, and investing activities.

These financial statements utilize the economic resources measurement focus and the full accrual basis of accounting. They report the Authority's net assets and changes in net assets in full compliance with GASB Statement No. 34. Under the full accrual basis of accounting, revenues are recognized in the period they are earned and expenses in the period they are incurred.

The entity-wide presentation represents three different programs and activities. Most of these programs are financed by federal grants from HUD and RD, rents, and other user charges resulting from operations of subsidized housing, by management fees, and by investment income and loan proceeds. In FY2005, the following programs (seen in the supplementary schedule of expenditures of federal awards on page 31) make up the Authority's single business-type activities financial statements:

- *Section 8 Housing Choice Vouchers* – This program is funded by HUD and is a subsidy program for low- and moderate-income families seeking housing in the private rental market.
- *Grant Programs* – These programs account for HUD grant funds received for the following activities: HOME, Emergency Shelter Grants, and Community Block Grants.

**Cedar City Housing Authority**  
**Management's Discussion and Analysis (continued)**  
**Year Ended June 30, 2005**

- *Rural Rental Housing Loans and Assistance Programs* – These programs are funded by RD and provide funds for the purchase of a multi-family property and subsidy for low- and moderate-income families seeking housing in the public rental market.

**Net Assets**

The Authority's overall financial position and operations for the past two years are summarized below based on the information included in the current and prior financial statements.

**Cedar City Housing Authority**  
**Balance Sheet**

	2005	2004	Total Percentage Change
Current assets	\$ 364,307	\$ 312,986	16.4%
Restricted deposits	42,956	167,177	(74.3%)
Fixed assets, net of depreciation	1,404,882	1,302,062	7.9%
Other assets	449,573	458,351	(1.9%)
Total assets	<u>2,261,718</u>	<u>2,240,576</u>	<u>0.9%</u>
Current liabilities	147,736	159,011	(7.1%)
Deposits and prepaid liabilities	6,697	5,450	22.9%
Noncurrent liabilities	1,210,398	1,233,918	(1.9%)
Total liabilities	<u>1,364,831</u>	<u>1,398,379</u>	<u>(2.4%)</u>
Net assets:			
Invested in capital assets	161,285	135,081	19.4%
Restricted net assets	22,139	31,846	(30.5%)
Unrestricted net assets	713,463	675,270	5.9%
Total net assets	<u>\$ 896,887</u>	<u>\$ 842,197</u>	<u>6.5%</u>

The Authority's total assets at June 30, 2005 were \$2,261,718, an increase of \$21,142, or 0.9%, from June 30, 2004.

***Cash and Cash Equivalents***

Total cash and cash equivalents increased by \$53,880, or 18.2% as of June 30, 2005 compared with June 30, 2004. The primary source of the increase was due to the overpayment of HUD's monthly housing assistance payment during FY2005.



**Cedar City Housing Authority  
Management's Discussion and Analysis (continued)  
Year Ended June 30, 2005**

***Restricted Cash***

Restricted cash decreased by \$126,734 in FY2005.

***Notes Payable***

During the year the Authority made principle payments to notes payable in the amount of \$20,102.

***Net Assets***

The Authority's net assets increased by \$54,690, or 6%, during FY2005. At June 30, 2005, investments in capital assets comprise about 62% of the Authority's total assets, while these assets carry related current and long-term debt of approximately \$1.2 million that is about 89% of its total liabilities. However, the amount invested in capital assets, net of related debt, amounts to about 18% of total net assets.

The Authority's net assets also consist of restricted and unrestricted net assets. Restricted net assets include cash restricted for tenants' security deposits and future modernization and development less liabilities that will be paid from these restricted assets. Restricted net assets includes \$42,956 in restricted cash less liabilities in the amounts of \$6,697 for tenants' security deposits. Unrestricted net assets would include cash in the bank, receivables, and other assets less all other liabilities not previously applied. At June 30, 2005, restricted net assets amounts to about 2% of total net assets and unrestricted net assets amounts to about 80% of total net assets.

**Cedar City Housing Authority**  
**Management's Discussion and Analysis (continued)**  
**Year Ended June 30, 2005**

**Revenues, Expenses and Changes in Net Assets**

The results of operations for the Authority are presented below:

**Cedar City Housing Authority**  
**Statement of Revenues, Expenses and Changes in Net Assets**

	2005	2004	Increase/(Decrease)	
			Amount	Percentage
Operating revenues:				
Dwelling rentals	\$ 87,506	\$ 83,092	\$ 4,414	5.4%
HUD PHA operating grants	580,309	632,343	(52,034)	(8.2%)
Other government grants	172,420	37,442	134,978	360.5%
Other operating revenue	88,474	89,012	(538)	(1.0%)
Total operating revenues	<u>928,709</u>	<u>841,889</u>	<u>86,820</u>	
Operating expenses:				
Administration	229,536	254,567	(25,031)	(9.8%)
Utilities	14,642	12,781	1,861	14.6%
Operating and maintenance	37,474	28,115	9,359	33.3%
Insurance	8,508	6,156	2,352	38.2%
General expenditures	14,042	-	14,042	-
Housing assistance payments	465,443	509,831	(44,388)	(8.7%)
Depreciation	48,202	38,653	9,549	24.7%
Total operating expenses	<u>817,847</u>	<u>850,103</u>	<u>(32,256)</u>	
Operating gain/(loss)	<u>110,862</u>	<u>(8,214)</u>	<u>119,076</u>	
Nonoperating revenues/(expenses):				
Interest income	10,533	13,351	(2,818)	(21.1%)
Interest expense	(66,705)	(40,007)	(26,698)	(66.7%)
Gain on the sale of fixed assets	-	14,915	(14,915)	(100.0%)
Nonoperating expenses, net	<u>(56,172)</u>	<u>(11,741)</u>	<u>(44,431)</u>	
Change in net assets	<u>\$ 54,690</u>	<u>\$ (19,955)</u>	<u>\$ 74,645</u>	

**Cedar City Housing Authority  
Management's Discussion and Analysis (continued)  
Year Ended June 30, 2005**

Operating revenues of the Authority's activities are generated principally from HUD PHA operating grants. In FY2005, the Authority's revenues for its activities totaled \$928,709. Of this total, \$580,309, or about 63%, is from HUD PHA operating grants. Operating expenses of the Authority's activities consist primarily of housing assistance payments. Operating expenses total \$817,844, of which \$465,443, or about 57%, was housing assistance payments.

About 1% of the Authority's total revenues in FY2005 were nonoperating revenues that are derived from interest income. The remaining 99% were operating revenues derived from dwelling rentals (9%), HUD PHA operating revenues (62%), other government grants (18%), and other operating revenues (9%).

About 8% of the Authority's total expenses in FY2005 were nonoperating expenses that are derived from interest expense. The remaining 92% were operating expenses derived from administration (26%), utilities (2%), operating and maintenance (4%), insurance (1%), housing assistance payments (53%), and depreciation (6%).

Increase in net assets for the year ended June 30, 2005 was \$54,690 compared with a decrease of \$19,955 for the year ended June 30, 2004. Factors contributing to these results included:

- Increase of other government grants in FY2005

**CAPITAL ASSETS**

The Authority's capital assets as of June 30, 2005, included land, buildings, and furniture and equipment that totaled \$1.4 million, most of which is comprised of rental units available for lease to low- and moderate-income residents. Capital assets, net of depreciation, increased \$102,820 from the preceding year.

	2005	2004	Change
Land	\$ 238,711	\$ 238,711	\$ -
Buildings	1,250,322	1,210,426	39,896
Furniture and equipment	39,958	39,958	-
Construction in progress	111,126	-	111,126
Accumulated depreciation	(235,235)	(187,033)	(48,202)
Total	<u>\$ 1,404,882</u>	<u>\$1,302,062</u>	<u>\$ 102,820</u>

**Cedar City Housing Authority  
Management's Discussion and Analysis (continued)  
Year Ended June 30, 2005**

**CONTACTING AUTHORITY MANAGEMENT**

This financial report is designed to provide a general overview of the Authority's accountability for all those interested. Questions concerning this report or requests for additional financial information should be directed to the Executive Director, Cedar City Housing Authority, 364 South 100 East, Cedar City, UT 84720.

**Cedar City Housing Authority**  
**Balance Sheet**

	June 30,	
	2005	2004
<b>Assets</b>		
<b>Current assets:</b>		
Cash - unrestricted (Note 2)	349,809	295,929
Accounts receivable	3,917	3,460
Notes receivable - related party, current portion	10,581	10,494
Prepaid expenses	-	3,103
Total current assets	<u>364,307</u>	<u>312,986</u>
<b>Restricted deposits:</b>		
Cash - tenants' security deposits (note 2)	8,138	5,625
Cash - restricted	34,818	161,552
Total restricted deposits	<u>42,956</u>	<u>167,177</u>
<b>Fixed assets:</b>		
Land	238,711	238,711
Buildings	1,250,322	1,210,426
Furniture and equipment	39,958	39,958
Construction in progress	111,126	-
Total fixed assets	<u>1,640,117</u>	<u>1,489,095</u>
Less: accumulated depreciation	<u>(235,235)</u>	<u>(187,033)</u>
Net fixed assets	<u>1,404,882</u>	<u>1,302,062</u>
<b>Other assets:</b>		
Notes receivable - related party, less current portion	449,573	458,351
Total other assets	<u>449,573</u>	<u>458,351</u>
<b>Total assets</b>	<u><u>\$ 2,261,718</u></u>	<u><u>\$ 2,240,576</u></u>

See accompanying notes to basic financial statements.

	June 30,	
	2005	2004
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	4,684	18,190
Accounts payable-HUD	81,919	73,134
Accrued payroll	5,321	4,743
Accrued liabilities	22,613	33,163
Mortgages payable, current portion (Note 3)	33,199	29,781
Total current liabilities	147,736	159,011
Deposits and prepaid liabilities:		
Tenants' security deposits	6,697	5,450
Non-current liabilities:		
Mortgages payable, less current portion (Note 3)	1,210,398	1,233,918
Total non current portion	1,210,398	1,233,918
Total liabilities	1,364,831	1,398,379
Net Assets		
Invested in capital assets, net of related debt	161,285	135,081
Restricted net assets	22,139	31,846
Unrestricted net assets	713,463	675,270
Total net assets	896,887	842,197
 Total liabilities and net assets	 <u>\$ 2,261,718</u>	 <u>\$ 2,240,576</u>

**Cedar City Housing Authority**  
**Statement of Revenues, Expenses,**  
**and Changes in Net Assets**

	<b>Year Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Operating revenues:</b>		
Dwelling rentals	\$ 87,506	\$ 83,092
HUD PHA operating grants	580,309	632,343
Other government grants	172,420	37,442
Other operating revenues	<u>88,474</u>	<u>89,012</u>
Total operating revenues	<u>928,709</u>	<u>841,889</u>
<b>Operating expenses:</b>		
Administration	229,536	254,567
Utilities	14,642	12,781
Ordinary maintenance and operations	37,474	28,115
Insurance	8,508	6,156
General expenditures	14,042	-
Housing assistance payments	465,443	509,831
Depreciation	<u>48,202</u>	<u>38,653</u>
Total operating expenses	<u>817,847</u>	<u>850,103</u>
 Operating income	 110,862	 (8,214)
<b>Non-operating revenues (expenses):</b>		
Interest income	10,533	13,351
Interest expense	(66,705)	(40,007)
Gain on the sale of fixed assets	-	14,915
Non-operating revenues (expenses)	<u>(56,172)</u>	<u>(11,741)</u>
 Change in net assets	 54,690	 (19,955)
Net assets at beginning of year	<u>842,197</u>	<u>862,152</u>
Net assets at end of year	<u><u>\$ 896,887</u></u>	<u><u>\$ 842,197</u></u>

See accompanying notes to basic financial statements.

**Cedar City Housing Authority**  
**Statement of Cash Flows**

	<b>Year Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
Cash flows from operating activities:		
Dwelling rentals	\$ 87,506	\$ 83,092
HUD PHA operating grants	580,309	632,343
Other government grants	172,420	33,982
Other operating revenues	88,017	89,012
Interest income	10,533	-
Restricted cash	126,734	-
Total receipts	<u>1,065,519</u>	<u>838,429</u>
Administration	(249,910)	(239,479)
Utilities	(14,643)	(12,780)
Ordinary maintenance and operations	(37,475)	(52,967)
Insurance	(8,508)	(6,156)
General expenditures	(14,041)	-
Tenant security deposit	(1,266)	-
Housing assistance payments	(456,658)	(461,090)
Interest expense	(66,705)	-
Total disbursements	<u>(849,206)</u>	<u>(772,472)</u>
Net cash provided by operating activities	<u>216,313</u>	<u>65,957</u>
Cash flows from investing activities:		
Purchase of fixed assets	(151,022)	(825,473)
Proceeds from sale of fixed assets	-	82,326
Principle payments received on notes receivable	8,691	29,884
Net deposits to FSS escrow account	-	(5,984)
Net deposits to modernization and development account	-	(96,717)
Net deposits to reserve for replacement account	-	(31,671)
Net cash used in investing activities	<u>(142,331)</u>	<u>(847,635)</u>
Cash flows from noncapital financing activities:	-	-
Cash flows from capital financing activities:		
Principal payments on long-term debt	(20,102)	(92,668)
Proceeds from long-term debt	-	948,822
Net cash used in capital financing activities	<u>(20,102)</u>	<u>856,154</u>
Net increase (decrease) in cash and cash equivalents	53,880	74,476
Cash and cash equivalents at beginning of year	295,929	221,453
Cash and cash equivalents at end of year	<u>\$ 349,809</u>	<u>\$ 295,929</u>

See accompanying notes to basic financial statements.



**Cedar City Housing Authority**  
**Statement of Cash Flows (continued)**

	<b>Year Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 54,690	\$ (19,955)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	48,202	38,653
Gain on sale of fixed assets	-	(14,915)
(Increase) decrease in:		
Accounts receivable	(457)	(3,460)
Restricted cash	126,734	-
Prepaid expenses	3,103	(3,103)
Cash-tenants' security deposits	(2,513)	(2,883)
Increase (decrease) in:		
Accounts payable	(13,506)	18,191
Accounts payable-HUD	8,785	48,741
Accrued payroll	578	-
Accrued liabilities	(10,550)	1,386
Tenants' security deposits	1,247	3,302
Net cash provided by operating activities	<u>\$ 216,313</u>	<u>\$ 65,957</u>

See accompanying notes to basic financial statements.

**Cedar City Housing Authority**  
**Notes to Financial Statements**  
**Years Ended June 30, 2005 and 2004**

**1. Summary of Significant Accounting Policies**

Organization and History

The Cedar City Housing Authority (the Authority) was created under the laws of the state of Utah, and certified by the United States Department of Housing and Urban Development (HUD). The purpose of the Authority is to administer programs in the City of Cedar City, Utah area under the Housing Act of 1937, as amended. The Federal Government subsidizes these programs by direct awards through HUD and U.S.D.A. Rural Development (RD), and pass through awards through other state and local government agencies.

Financial Reporting Entity

The Governmental Accounting Standards Board (GASB) has issued Statement No. 14, *"The Financial Reporting Entity,"* as amended by GASB Statement No. 39, *"Determining Whether Certain Organizations Are Component Units,"* which describes those entities that are considered component units for financial reporting purposes. The Authority is not considered a component unit of Cedar City (the City), or any other government entity under the criteria of GASB Statement No. 14, as amended by GASB Statement No. 39, since the City exercises no oversight responsibility either financially or administratively over the Authority.

CCHA Affordable Housing '02, LLC (CCHA '02) was established and organized during 2002 as a nonprofit corporation for the purpose of acquiring, developing and managing real estate for affordable housing. CCHA '02 is considered a component unit of the Authority and has been included in the Authority's basic financial statements as a blended component unit in accordance with GASB Statement No. 14, as amended by GASB Statement No. 39. CCHA '02 is considered a component unit of the Authority because the Authority can significantly influence the program, projects, activities, or level of service performed by CCHA '02.

Basis of Presentation

In order to insure observance of limitations and restrictions placed on the use of resources available to the Authority, the accounts are maintained in accordance with the principles of fund accounting. The Authority participates in HUD and RD programs on an enterprise fund basis. All of the Authority's programs are accounted for as one business-type activity for financial reporting purposes and neither fiduciary funds nor component units that are fiduciary in nature are included. The financial statement presentation provides an indication of the financial performance of the Authority as a whole. In addition, the Authority adopts the budget that has been approved by its Board.

In accordance with HUD prescribed accounting practices, the Authority has adopted GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting."* The Authority has elected to apply all applicable FASB pronouncements and Accounting Principle Board (APB) opinions issued on or before November 30, 1989. The Authority also elects to apply all FASB pronouncements after November 30, 1989 as long as they do not conflict with or contradict GASB pronouncements.

**Cedar City Housing Authority**  
**Notes to Financial Statements (continued)**  
**Years Ended June 30, 2005 and 2004**

**1. Summary of Significant Accounting Policies (Continued)**

**Basis of Presentation (continued)**

In June 1999, the GASB issued Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments.*" This statement, known as the "Reporting Model" statement, affects the way the Authority prepares and presents financial information. GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments and had no impact on beginning net assets. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

**Management's Discussion and Analysis**— GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports and is included as required supplementary information.

**Balance Sheet** – The Balance Sheet is designed to display the financial position of the primary government (business-type activities). There are no discretely presented component units. Governments report all capital assets in the government-wide Balance Sheet and report depreciation expense – the cost of "using up" capital assets – in the Statement of Revenues, Expenses and Changes in Net Assets. There is no infrastructure. The net assets of the Authority will be broken down into three categories – 1) invested in capital assets, net of related debt, 2) restricted net assets, and 3) unrestricted net assets.

**Statement of Cash Flows** – The direct method is required by GASB Statement No. 34.

**Basis of Accounting**

The Authority's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Under the accrual basis, revenues are recorded when earned and expenses are recorded when incurred. Revenues that have been received but not earned before the fiscal year end are recorded as deferred revenues.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. Principal operating revenues are dwelling rentals, management fees, and intergovernmental revenues. Operating expenses include administration, maintenance, insurance, depreciation, utilities, and housing assistance payments. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. This includes interest income and interest expense amounts, not discussed above.

**Cedar City Housing Authority**  
**Notes to Financial Statements (continued)**  
**Years Ended June 30, 2005 and 2004**

**1. Summary of Significant Accounting Policies (Continued)**

Cash and Cash Equivalents

The Authority considers all highly liquid debt and equity instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents at June 30, 2005 and 2004 consist of cash and certificates of deposit. Not included as cash and cash equivalents are tenants' security deposits, reserve for replacement deposits, and FSS escrow deposits.

Fixed Assets

Property and equipment are recorded at cost and depreciated using the straight-line method of depreciation over the estimated useful lives of the assets, as shown below. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. Maintenance and repairs, including the replacement of minor items, are expensed as incurred, and major additions to buildings, furnishings, and equipment are capitalized. Construction in progress commences depreciation when the construction is complete and related assets placed in service.

<u>Major Groupings</u>	<u>Useful Lives (years)</u>
Buildings	30
Furniture and equipment	3-7

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20 and FASB Statement No. 3. This statement changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, Opinion 20 required that most voluntary changes in accounting principle be recognized by including in net income of the period of change the cumulative effect of changing to a new principle. This statement requires retrospective application to prior periods' financial statements of changes in accounting principle, when practicable. The adoption of SFAS No. 154 did not have a material impact on the Authority's financial condition or results of operations.

**2. Deposits**

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State, and review the rules adopted under the authority of the State of Utah Money Management Act (the Act) that relate to the deposit and investment of public funds.

**Cedar City Housing Authority**  
**Notes to Financial Statements (continued)**  
**Years Ended June 30, 2005 and 2004**

**2. Deposits (continued)**

The Authority follows the requirements of the Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of the Authority funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

*Custodial Credit Risk*

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. The Authority does not have a formal deposit policy for custodial credit risk. As of June 30, 2005 and 2004, \$44,504 and \$52,050 of the Authority's bank balances of \$404,605 and \$469,362 were uninsured and uncollateralized, respectively.

**3. Notes Receivable - related party**

The Authority has two notes receivable from CCHA Affordable Housing '97, LLC (CCHA '97), a related party to the Authority (see note 10).

- 1- A note receivable of \$342,450 and \$351,141 at June 30, 2005 and 2004, respectively, is collateralized with land and a building, which management estimates is greater than the face value of the note, and bears interest at 1% per annum. Principal and interest are due in monthly installments of \$975 and the remaining balance is due March, 2040.
- 2- A note receivable of \$117,704 at June 30, 2005 and 2004, is collateralized with land and a building (see item 1 above) and bears interest at 2% per annum. Principal and interest are due in monthly installments of \$383 and the remaining balance is due May, 2040.

**4. Long-Term Debt**

Long-term debt at June 30, 2005 consists of the following:

- 1- A mortgage payable due to the State of Utah Division of Finance. The mortgage note is collateralized with land and a building with a total carrying value of \$86,745 and bears an interest rate of 5% per annum. Principal and interest are payable in equal monthly payments of \$639. The mortgage note is due October, 2024, and began with a balance of \$100,653. \$ 95,096
- 2- A mortgage payable due to an individual. The mortgage note is collateralized with a first lien on land and a building with a total carrying value of \$191,992 and bears an interest rate of 4% per annum. Principal and interest are payable in equal monthly payments of \$970. The mortgage note is due November, 2015, and began with a balance of 113,713. 98,984

**Cedar City Housing Authority**  
**Notes to Financial Statements (continued)**  
**Years Ended June 30, 2005 and 2004**

**4. Long-Term Debt (continued)**

3- A mortgage payable due to the State of Utah Division of Finance. The mortgage note is collateralized with a second lien on land and a building (see item 2 above) and bears an interest rate of 5% per annum. Principal and interest are payable in equal monthly payments of \$268. The mortgage note is due September, 2033, and began with a balance of \$50,000.	58,830
4- A mortgage payable due to the State of Utah Division of Finance. The mortgage note is collateralized with a building with a total carrying value of \$192,655 and bears an interest rate of 3% per annum. Principal and interest are payable in equal monthly payments of \$422. The mortgage note is due May, 2021, and began with a balance of \$70,142.	64,061
5- A mortgage payable due to RD. The mortgage note is collateralized with a first lien on land and a building with a total carrying value of \$782,626 and bears an interest rate of 6.375% per annum. Principal and interest are payable in equal monthly payments of \$649. The mortgage note is due November, 2028, and began with a balance of \$97,107.	94,454
6- A mortgage payable due to RD. The mortgage note is collateralized with a second lien on land and a building (see item 5 above) and bears an interest rate of 6.375% per annum. Principal and interest are payable in equal monthly payments of \$3,841. The mortgage note is due November, 2028, and began with a balance of \$574,775.	559,068
7- A mortgage payable due to the State of Utah Division of Finance. The mortgage note is collateralized with a third lien on land and a building (see items 5 and 6 above) and bears an interest rate of 3% per annum. Payments began November, 2004 in equal monthly payments of \$1,168. The mortgage note is due October, 2034.	273,104
Total mortgages payable	1,243,597
Current portion	33,199
Long-term portion	<u>\$ 1,210,398</u>

**Cedar City Housing Authority**  
**Notes to Financial Statements (continued)**  
**Years Ended June 30, 2005 and 2004**

**4. Long-Term Debt (continued)**

Future maturities of long-term debt are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 33,199	\$ 62,277
2007	34,809	60,667
2008	36,504	58,975
2009	38,290	57,187
2010	40,170	55,306
2011-2015	232,788	244,641
2016-2020	239,193	184,862
2021-2025	278,829	115,394
2026-2030	234,209	36,056
2031-2035	75,606	4,670
Total future maturities	<u>\$1,243,597</u>	<u>\$ 880,035</u>

As is customary in the low-income housing industry, interest rates on loans used to finance the purchase of low-income housing are, in some cases, substantially below usual prevailing market rates in other industries and many loans bear interest rate subsidies and longer terms than what is customary. As a result, debt discounts based on the future value of the cumulative differences between actual interest rates and prevailing market rates for this industry have not been recorded on the Authority's financial statements as the difference between actual interest rates and interest rates that are customary in the industry are not considered material. Management is of the opinion that recording substantial debt discounts based on differences from prevailing rates in other industries would make the financial statements misleading.

**5. Pension Plans**

The Authority's retirement plan is a defined contribution pension plan established by the Authority to provide benefits at retirement to full-time employees of the Authority. At June 30, 2005 and 2004, there were three plan members. Plan members can contribute up to 5% of covered salary. The Authority is required to match contributions up to 3% of annual covered payroll. Plan provisions and contribution requirements are established and may be amended by the Board of Commissioners of the Authority.

Employer and plan member contributions are recognized in the period that the contributions are due. Total pension plan cost at June 30, 2005 and 2004 is \$3,469 and \$3,169, respectively.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair values.

**Cedar City Housing Authority**  
**Notes to Financial Statements (continued)**  
**Years Ended June 30, 2005 and 2004**

**6. Economic Dependency**

A majority of the revenues received by the Authority come from HUD and RD. Programs operated by the Authority depend upon continued funding by the U.S. Government.

**7. Risk Management and Concentrations of Credit Risk**

The Authority is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Various insurance policies have been purchased to cover the risks described above. The insurance policies require minimal deductible amounts that the Authority pays in the event of any loss. The Authority also has purchased a worker compensation policy. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Authority's customers are primarily low-income rental tenants in the Cedar City area that may be affected by changing economic conditions. Management believes that its credit review procedures and tenant deposits have adequately provided for usual and customary credit-related losses. The Authority's policy for charging off tenant receivables is to consider write-down of receivables extending beyond 120 days after significant collection efforts have been made or when the financial condition of tenants warrant charge-off. Tenant receivables are determined to be past due after 30 days regardless of whether partial payments have been received. Based on the Authority's policy for charging off tenant receivables, the bad debts allowance is insignificant.

**8. Changes in Fixed Assets**

	Balance 06/30/04	Additions	Retirements	Balance 06/30/05
Land	\$ 238,711	\$ -	\$ -	\$ 238,711
Buildings	1,210,426	39,896	-	1,250,322
Furniture and Equipment	39,958	-	-	39,958
Construction in Progress	-	111,126	-	111,126
Total Fixed Assets	1,489,095	151,022	-	1,528,991
Accumulated Depreciation	(187,033)	(48,202)	-	(235,235)
Net Fixed Assets	<u>\$ 1,302,062</u>	<u>\$ 102,820</u>	<u>\$ -</u>	<u>\$ 1,404,882</u>

**9. Interprogram Eliminations**

The Authority has interprogram receivables and payables totaling \$11,502 that have been eliminated on the basic financial statements. Additionally, the Authority received management fees from CCHA '02 (blended component unit) in the amount of \$11,809, Community Block Grants that passed through \$62,117 to CCHA '02, and a partnership distribution from CCHA '02 to the Authority in the amount of \$4,080 that have also been eliminated on the basic financial statements.



**Cedar City Housing Authority**  
**Notes to Financial Statements (continued)**  
**Years Ended June 30, 2005 and 2004**

**10. Related Party Transactions**

The Authority loaned CCHA '97 (a partnership in which the Authority is the managing member) funds for the construction of an apartment complex for the elderly. The Authority has notes receivable in the amount of \$342,450 and \$117,704 from CCHA '97 (see note 3). During the year ended June 30, 2005, the Authority also received management fees from CCHA '97 in the amount of \$3,934. The Authority is also the managing member of Centennial Park, LLC. The Authority received management fees from Centennial Park, LLC in the amount of \$6,240 for the year ended June 30, 2005.

**Supplementary Schedules**

**Cedar City Housing Authority**  
**Financial Data Schedule I – Balance Sheet**  
**June 30, 2005**

PHA: UT031 FYED: 06/30/2005

Line Item No.	Account Description	Business Activities	Housing Choice Vouchers	Component Units	Total
111	Cash - Unrestricted	\$241,788	\$105,444	\$2,577	\$349,809
113	Cash - Other Restricted	\$0	\$12,679	\$22,139	\$34,818
114	Cash - Tenant Security Deposits	\$2,151	\$0	\$5,987	\$8,138
100	Total Cash	\$243,939	\$118,123	\$30,703	\$392,765
125	Accounts Receivable - Miscellaneous	\$3,917	\$0	\$0	\$3,917
126.2	Allowance for Doubtful Accounts - Other	\$0	\$0	\$0	\$0
127	Notes, Loans, & Mortgages Receivable - Current	\$10,581	\$0	\$0	\$10,581
120	Total Receivables, net of allowances for doubtful accounts	\$14,498	\$0	\$0	\$14,498
144	Interprogram Due From	\$11,502	\$0	\$0	\$11,502
150	Total Current Assets	\$269,939	\$118,123	\$30,703	\$418,765
161	Land	\$66,420	\$0	\$172,291	\$238,711
162	Buildings	\$559,789	\$0	\$690,533	\$1,250,322
163	Furniture, Equipment & Machinery - Dwellings	\$18,317	\$0	\$0	\$18,317
164	Furniture, Equipment & Machinery - Administration	\$0	\$21,641	\$0	\$21,641
165	Leasehold Improvements	\$0	\$0	\$0	\$0
166	Accumulated Depreciation	\$-171,431	\$-21,641	\$-42,163	\$-235,235
167	Construction In Progress	\$0	\$0	\$111,126	\$111,126
160	Total Fixed Assets, Net of Accumulated Depreciation	\$473,095	\$0	\$931,787	\$1,404,882
171	Notes, Loans, & Mortgages Receivable - Non Current	\$449,573	\$0	\$0	\$449,573
180	Total Non-Current Assets	\$922,668	\$0	\$931,787	\$1,854,455
190	Total Assets	\$1,192,607	\$118,123	\$962,490	\$2,273,220

**Cedar City Housing Authority**  
**Financial Data Schedule I – Balance Sheet (continued)**  
**June 30, 2005**

PHA: UT031 FYED: 06/30/2005

Line Item No.	Account Description	Business Activities	Housing Choice Vouchers	Component Units	Total
312	Accounts Payable <= 90 Days	\$2,345	\$0	\$2,339	\$4,684
321	Accrued Wage/Payroll Taxes Payable	\$5,321	\$0	\$0	\$5,321
331	Accounts Payable - HUD PHA Programs	\$0	\$81,919	\$0	\$81,919
341	Tenant Security Deposits	\$710	\$0	\$5,987	\$6,697
343	Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds	\$14,781	\$0	\$18,418	\$33,199
345	Other Current Liabilities	\$0	\$18,388	\$4,225	\$22,613
347	Interprogram Due To	\$0	\$0	\$11,502	\$11,502
310	Total Current Liabilities	\$23,157	\$100,307	\$42,471	\$165,935
351	Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue Bonds	\$302,190	\$0	\$908,208	\$1,210,398
350	Total Noncurrent Liabilities	\$302,190	\$0	\$908,208	\$1,210,398
300	Total Liabilities	\$325,347	\$100,307	\$950,679	\$1,376,333
508	Total Contributed Capital	\$0	\$0	\$0	\$0
508.1	Invested in Capital Assets, Net of Related Debt	\$156,124	\$0	\$5,161	\$161,285
511	Total Reserved Fund Balance	\$0	\$0	\$0	\$0
511.1	Restricted Net Assets	\$0	\$0	\$22,139	\$22,139
512.1	Unrestricted Net Assets	\$711,136	\$17,816	\$-15,489	\$713,463
513	Total Equity/Net Assets	\$867,260	\$17,816	\$11,811	\$896,887
600	Total Liabilities and Equity/Net Assets	\$1,192,607	\$118,123	\$962,490	\$2,273,220

**Cedar City Housing Authority**  
**Financial Data Schedule II – Statement of Revenues, Expenses**  
**and Changes in Net Assets**  
**Year Ended June 30, 2005**

PHA: UT031 FYED: 06/30/2005

Line Item No.	Account Description	Business Activities	Housing Choice Vouchers	Component Units	Total
703	Net Tenant Rental Revenue	\$55,891	\$0	\$31,615	\$87,506
705	Total Tenant Revenue	\$55,891	\$0	\$31,615	\$87,506
706	HUD PHA Operating Grants	\$0	\$580,309	\$0	\$580,309
708	Other Government Grants	\$96,211	\$0	\$76,209	\$172,420
711	Investment Income - Unrestricted	\$9,472	\$1,010	\$51	\$10,533
715	Other Revenue	\$94,291	\$9,094	\$63,095	\$166,480
700	Total Revenue	\$255,865	\$590,413	\$170,970	\$1,017,248

**Cedar City Housing Authority**  
**Financial Data Schedule II – Statement of Revenues, Expenses**  
**and Changes in Net Assets (continued)**  
**Year Ended June 30, 2005**

PHA: UT031 FYED: 06/30/2005

Line Item No.	Account Description	Business Activities	Housing Choice Vouchers	Component Units	Total
911	Administrative Salaries	\$39,625	\$76,106	\$0	\$115,731
912	Auditing Fees	\$4,080	\$4,225	\$4,225	\$12,530
916	Other Operating - Administrative	\$51,287	\$42,169	\$19,628	\$113,084
931	Water	\$0	\$0	\$7,026	\$7,026
932	Electricity	\$0	\$0	\$870	\$870
934	Fuel	\$0	\$0	\$1,050	\$1,050
938	Other Utilities Expense	\$5,696	\$0	\$0	\$5,696
941	Ordinary Maintenance and Operations - Labor	\$0	\$0	\$5,934	\$5,934
942	Ordinary Maintenance and Operations - Materials and Other	\$0	\$0	\$3,853	\$3,853
943	Ordinary Maintenance and Operations - Contract Costs	\$69,684	\$0	\$20,120	\$89,804
961	Insurance Premiums	\$2,983	\$0	\$5,525	\$8,508
962	Other General Expenses	\$12,067	\$0	\$1,975	\$14,042
967	Interest Expense	\$23,125	\$0	\$43,580	\$66,705
969	Total Operating Expenses	\$208,547	\$122,500	\$113,786	\$444,833
970	Excess Operating Revenue over Operating Expenses	\$47,318	\$487,913	\$57,184	\$572,415
973	Housing Assistance Payments	\$0	\$465,443	\$0	\$465,443
974	Depreciation Expense	\$22,290	\$29	\$25,883	\$48,202
900	Total Expenses	\$230,837	\$587,972	\$139,669	\$958,478
1010	Total Other Financing Sources (Uses)	\$0	\$0	\$0	\$0
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	\$25,028	\$2,441	\$31,301	\$58,770

**Cedar City Housing Authority**  
**Financial Data Schedule II – Statement of Revenues, Expenses**  
**and Changes in Net Assets (continued)**  
**Year Ended June 30, 2005**

PHA: UT031 FYED: 06/30/2005

Line Item No.	Account Description	Business Activities	Housing Choice Vouchers	Component Units	Total
1102	Debt Principal Payments - Enterprise Funds	\$0	\$0	\$0	\$0
1103	Beginning Equity	\$842,232	\$15,375	\$-15,410	\$842,197
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$0	\$0	\$-4,080	\$-4,080
1113	Maximum Annual Contributions Commitment (Per ACC)	\$0	\$665,310	\$0	\$665,310
1114	Prorate Maximum Annual Contributions Applicable to a Period of less than Twelve Months	\$0	\$0	\$0	\$0
1115	Contingency Reserve, ACC Program Reserve	\$0	\$173,189	\$0	\$173,189
1116	Total Annual Contributions Available	\$0	\$838,499	\$0	\$838,499
1120	Unit Months Available	129	1,668	264	2,061
1121	Number of Unit Months Leased	123	1,649	247	2,019

**Cedar City Housing Authority**  
**Notes to Financial Data Schedules**  
**Year Ended June 30, 2005**

**1. Basis of Presentation**

The Financial Data Schedules have been prepared using the basis of accounting required by HUD's Real Estate Assessment Center.

**2. Reconciliation to Basic Financial Statements**

The following reconciles combined balances of total assets, total liabilities, total equity (net assets) and net income (changes in net assets) per the Financial Data Schedules to the basic financial statements:

	<u>Total assets</u>	<u>Total liabilities</u>	<u>Total equity</u>	<u>Change in Net Assets</u>
Balances per Financial Data Schedules	\$2,273,220	1,376,333	896,887	58,770
Elimination of interprogram balances	<u>(11,502)</u>	<u>(11,502)</u>	<u>-</u>	<u>(4,080)</u>
Balances per basic financial statements	<u>\$2,261,718</u>	<u>1,364,831</u>	<u>896,887</u>	<u>54,690</u>



**Cedar City Housing Authority**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2005**

<u>Federal Assistance Programs Agency/Program Grant Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Housing &amp; Urban Development (HUD)</b>		
<b>Direct Programs:</b>		
Section 8 Housing Choice Vouchers	14.871	\$ 580,309
<b>Passed Through from the Utah State Department of Community and Economic Development:</b>		
HOME Investment Partnerships Program	14.239	268,268
Emergency Shelter Grants Program	14.231	16,911
Community Development Block Grant	14.228	76,705
<b>U.S. Department of Agriculture</b>		
<b>Direct Programs:</b>		
Rural Rental Housing Loans	10.415	653,522
Rural Rental Housing Loans – Interest Subsidy	10.415	20,989
Rural Rental Assistance Payments	10.427	<u>55,220</u>
Total expenditures of federal awards		<u>\$ 1,671,924</u>

**Cedar City Housing Authority**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2005**

**1. Scope of Audit Pursuant to OMB Circular A-133**

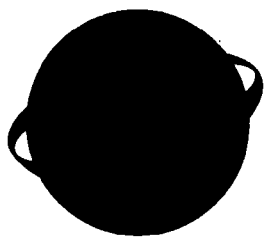
The Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal award programs of the Authority. All federal awards received directly from federal agencies as well as federal awards passed through other governmental agencies or other entities are included in the Schedule.

**2. Basis of Presentation**

The Authority's Schedule of Expenditures of Federal Awards has been prepared using the same basis of accounting as the June 30, 2005 financial statements of the Authority. The Authority reports to HUD and RD using the accrual basis of accounting. A complete description of the basis of accounting is included in note 1 to those financial statements.

**3. Contingencies**

In connection with various federal grant programs, the Authority is obligated to administer related programs and spend the funds in accordance with regulatory restrictions, and is subject to audit by grantor agencies and other auditors. In cases of noncompliance, the agencies involved may require the Authority to refund program funds.



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## Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Commissioners  
Cedar City Housing Authority  
Cedar City, Utah

We have audited the financial statements of the Cedar City Housing Authority (the Authority) as of and for the year ended June 30, 2005, and have issued our report thereon dated March 10, 2006. That report noted that the Authority implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* for the year ended June 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters that we reported to management of the Authority, in a separate letter dated March 10, 2006.

This report is intended solely for the information of the audit committee, Board of Commissioners, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

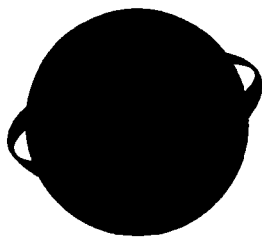
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## Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Commissioners  
Cedar City Housing Authority  
Cedar City, Utah

### Compliance

We have audited the compliance of the Cedar City Housing Authority (the Authority) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements and other matters applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority, complied, in all material respects, with the requirements referred above that are applicable to each of its major federal programs for the year ended June 30, 2005.

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Board of Commissioners  
Cedar City Housing Authority

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Commissioners, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Child, Van Wagoner & Bradshaw*

Child, Van Wagoner & Bradshaw, PLLC  
Kaysville, Utah  
March 10, 2006

**Cedar City Housing Authority**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2005**

**SECTION I - Summary of Auditors' Results**

*Financial Statements*

Type of auditor's report issued:      **Unqualified**

**Internal control over financial reporting:**

- Material weakness(es) identified?             Yes        X   No
  
- Reportable condition(s) identified that are not considered to be material weaknesses?             Yes        X   None reported

Non compliance material to financial statements noted?             Yes        X   No

*Federal Awards*

**Internal control over major programs:**

- Material weakness(es) identified?             Yes        X   No
  
- Reportable condition(s) identified that are not considered to be material weaknesses?             Yes        X   None reported

Type of auditors' report issued on compliance for major programs:      **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?             Yes        X   No

**Identification of major programs?**

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.415	Rural Rental Housing Loans
14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between type A and type B programs:        \$  300,000  

Auditee qualified as low-risk auditee?        X   Yes             No

**Cedar City Housing Authority  
Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2005**

**Section II-Financial Statement Findings and Questioned Costs**

No matters were reported for the year ended June 30, 2005.

**Section III-Federal Award Findings and Questioned Costs**

No matters were reported for the year ended June 30, 2005.

**Cedar City Housing Authority**  
**Schedule of Findings and Questioned Costs - Prior Year**  
**Year Ended June 30, 2005**

**Finding 04-1 – Failure to Follow Generally Accepted Accounting Principles**

*Condition:* The Authority did not follow generally accepted accounting principles regarding the proper recording of assets, liabilities, revenues, and expenses nor do the Authority's policies and procedures provide for internal controls sufficient to detect errors in a timely manner.

*Criteria:* Entities receiving government funding should follow generally accepted accounting principles.

*Effect:* A large number of audit adjustments were required to accurately report notes receivable, fixed assets, accounts payable, grant revenue, and interest expense.

*Cause:* The Authority did not record notes receivable, fixed assets, accounts payable, grant revenue, or interest expense in accordance with generally accepted accounting principles.

*Recommendation:* The Authority's personnel must adhere to the basic concepts of generally accepted accounting principles and apply those principles to their financial record keeping. In addition, the Authority's internal controls should include a provision for the timely review, inspection, and monitoring of accounting policies and procedures by persons independent of those who record transactions.

*Status:* This matter is considered closed.

**Finding 04-2 – Period of Availability of Federal Funds (CFDA #14.239)**

*Condition:* The Authority did not spend \$96,717 of obligated HOME funds within the period of availability as stated by the contract.

*Criteria:* A non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period.

*Effect:* The Authority is in noncompliance with Federal requirements.

*Cause:* The rehabilitation of a newly purchased apartment project was not performed by the end of the period of availability.

*Recommendation:* The Authority should request an amendment to the original contract or request a new contract to obligate and authorize the expenditure of the remaining HOME funds.

*Status:* This matter is considered closed.



**Cedar City Housing Authority**  
**Schedule of Findings and Questioned Costs - Prior Year (continued)**  
**Year Ended June 30, 2005**

**Finding 04-3 – Special Tests and Provisions – Replacement Reserve (CFDA #10.415)**

*Condition:* In accordance with the Rural Development (RD) loan agreement, the Authority is required to make annual deposits to a replacement reserve account. As of June 30, 2004 the reserve account is under-funded by \$16,940.

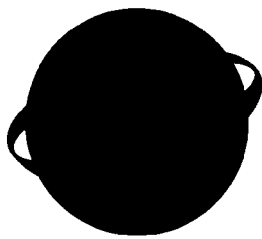
*Criteria:* The RD loan agreement requires deposits to the replacement reserve account at a rate of \$29,040 annually plus any under funded amounts from the prior year(s).

*Effect:* The replacement reserve account is under-funded. Thus, the funds may not be available to adequately maintain the property.

*Cause:* The Authority did not make the required deposits into the replacement reserve account.

*Recommendation:* The Authority should deposit the under-funded amount and make the required annual deposits to the replacement reserve account in order to properly fund the account.

*Status:* This matter is considered closed.



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## Cedar City Housing Authority Independent Auditors' Report on State Legal Compliance Year Ended June 30, 2005

Board of Commissioners  
Cedar City Housing Authority  
Cedar City, Utah

We have audited the financial statements of the Cedar City Housing Authority (the Authority), for the year ended June 30, 2005, and have issued our report thereon dated March 10, 2006. Our audit included test work on the Authority's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide including:

Cash Management  
Other Compliance Requirements

The Authority received the following major fund during the year ended June 30, 2005:

Olene Walker Housing Loan

The Authority also received the following nonmajor fund during the year ended June 30, 2005:

Critical Needs Grant

The management of the Authority is responsible for the Authority's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, the Authority complied, in all material respects with the general compliance requirements identified above for the year ended June 30, 2005.

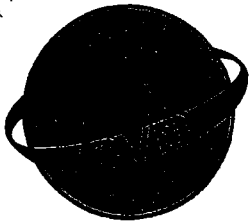
*Child, Van Wagoner & Bradshaw*

Child, Van Wagoner & Bradshaw, PLLC  
Kaysville, UT  
March 10, 2006

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April 4, 2006

To the Board of Commissioners  
and the Executive Director  
of Cedar City Housing Authority  
364 S. 100 E.  
Cedar City, Utah 84720

As auditors, we feel it is beneficial to our clients to offer suggestions for improvement with regards to their financial recording systems and internal controls. This letter to the management is a summary of suggestions we noted for the audit of Cedar City Housing Authority (the Authority) for the year ended June 30, 2005.

1. We noted that the reserve for replacement account for Cedar Garden Villa does not earn interest. After discussing the issue with Bob Milianta, RD Area Director, we determined that the account should be an interest bearing account. Therefore, we suggest the Authority contact the State Bank of Southern Utah to change the account from a non-interest bearing account to an interest bearing account.
2. The balance of cash over the \$100,000 limit covered by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Association (NCUA) held by Wells Fargo and Mountain America Credit Union in the Authority's name is \$7,095 and \$37,409, respectively. The Authority should spread out the cash accounts among several banks in order to assure cash remains insured by the FDIC and NCUA.
3. The Cedar Garden Villa security deposit account did not have sufficient funds of \$1,937 in the account at the end of the year to cover the tenant security deposit liability. Cedar Garden Villa did have sufficient funds to properly cover the liability in their operating account. Therefore, we suggest that management transfer funds to the security deposit account to properly cover the liability and continually watch the account to make sure the liability is properly covered at all times.

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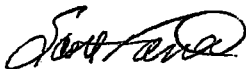
4. The Section 8 Housing Choice Vouchers FSS account did not have sufficient funds of \$1,484 in the account at the end of the year to cover the FSS participant security deposit liability. The section 8 housing choice vouchers program did have sufficient funds to properly cover the liability. Therefore, we suggest that management transfer funds to the FSS account to properly cover the liability and continually watch the account the make sure the liability is properly covered at all times.
5. We noted that reimbursements made from Section 8 Housing Choice Vouchers program was recorded as revenue on the Rental program's ledger instead of being set against the corresponding expenses i.e. payroll, miscellaneous administrative expenses, etc. These reimbursements should decrease the expenses that were originally paid out by the Rental program so as not to overstate the revenue and expenses of the Rental program.

We are required to disclose to you whether it is our opinion that the material misstatements leading up to the audit adjustments may be indicative of fraud, misrepresentation, or abuse. We do not feel that the audit adjustments for the year ended June 30, 2005, were indicative of fraud, misrepresentation, or abuse.

Our firm is independent of the Authority and this independence has been communicated to management.

Thank you for allowing us to serve you and make these suggestions. We look forward to our continuing professional relationship and to assisting you with the above recommendations. Please call me if you have any questions or concerns.

Very truly yours



Scott L. Farnes, Principle  
Child, Van Wagoner & Bradshaw, PLLC